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Economic Internationalism

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MUCH is heard today of internationalism, both political and economic. The proposed league of nations, the growing interdependence of peoples in different parts of the world and the need for better understanding and more complete agreement are all brought to our attention in private discussion, on platform, and by the press. At the same time much is said of the necessity for better trade organization, of commercial rivalry and of the plans here and elsewhere to conquer foreign markets. This article undertakes an analysis of these apparent contradictions.

In the past the economic organization of the world has been largely local or at the most national. To be sure, theoretical writers have argued for internationalism. The importance of free interchange of goods, of the removal of all trade barriers and of the economic brotherhood of man have been set forth at length. In England and in the United States particularly have writers on economic theory been internationalists. In Germany List's "National System of Political Economy" introduced an opposing view which, with modifications, has been accepted by most of his countrymen both in principle and in practice, but even with List economic nationalism was merely a preliminary step toward internationalism. Progress for all countries was in his judgment toward freedom of trade, of the sort even then adopted by England because her industrial development justified it.

THE DOMINANCE OF NATIONALISM

Yet practice has been curiously and persistently at variance with the theories of internationalism. England is the only country that is avowedly free-trade, the other countries of the world having protective tariffs. This may have been very unwise and very short-sighted but such has been their policy. Moreover, England herself has been international in her conduct only or chiefly in her tariff. In many particulars she has been intensely nationalistic and has actually set an example to the world in some

of them. It was Lord Palmerston who established a precedent for modern "dollar diplomacy" when he utilized English naval forces to compel Greece to pay interest on some of her bonds owned by a subject of Great Britain. This example has been followed by other governments until today it is a frequent practice. English trade also is a matter of national pride and is to be developed not so much in coöperation as in rivalry with other countries.

Nationalism seems to be dominant in the economic life of the world. Those who argue against it and in favor of internationalism have a twofold task. First, they must show that there now exists an economic organization or machinery that makes internationalism desirable or possible, or perhaps even imperative. Second, these facts must be presented so clearly, so convincingly and so emphatically that there will rapidly appear among us a new conception. A large part of the task is to adjust our thinking and our terminology to the modified situation.

Some of the changes that have occurred are well understood. The growth of the large corporation, the increasing part played by capital and the significance of modern rapid communication and transportation are illustrations. Here are changes great in extent and influence. Their size is impressive, their activities are prominently before us and their influence on our lives is daily noticeable. Yet much of our reaction is merely a vague impression and not a full appreciation of what has occurred. A brief summary will be profitable.

Prior to the Industrial Revolution methods of agriculture were relatively crude. In England the land was still in the hands of small holders. In France a considerable proportion of the peasants were landholders but cultivation was hampered by many restraints both of law and of custom. Germany was still more agricultural than France but her methods were antiquated. In Germany industry was strongly under the influence of the gild. The same was true but to a less degree in France while in England the domestic system prevailed. Foreign commerce was very limited. That of France was small in volume, chiefly European and in fancy goods. England's was relatively large, was in staples and growing rapidly. Germany's commercial relations with the outside world were unimportant.

Then came the Industrial Revolution. To European agricul-

ture it meant heavier investments with an improved machinery and a new technique. Manufacturing in all countries witnessed the rise of the factory system, the increasing significance of iron and coal and the shifting of population from country to town. A gulf developed between employer and employe, the condition of the laborers, especially that of women and children, became deplorable. A larger product was secured under the new methods but a considerable fraction of it was sent abroad and the conditions of the European factory workers was worse than that of their fathers and grandfathers.

Transportation and communication also underwent great changes. Highways and canals grew in number, in size and in quality. Steam power was introduced and after a time the telegraph and the telephone. Trade flourished, the desire to control sources of raw materials and markets increased and opportunities for international rivalry and friction multiplied.

CAUSES OF ECONOMIC FRICTION

The economic competition which ensued was intense and probably inevitable. During the nineteenth century the changes that have been so briefly summarized swept over not one country but all of western Europe, while in the United States also modern methods were rapidly adopted. Instead of exploiting widely separated countries the rival commercial and industrial interests were brought into close contact. In Africa, in Asia and elsewhere representatives of different nations, finally including the United States, sought to push their own interests in opposition to those of their rivals.

This closer contact was enough in itself to produce friction but the difficulties were increased because of the large amounts of capital involved. Investments in land, in factories, in machinery and in transportation grew to enormous sums and gave intensity and momentum to the movement. While ownership was somewhat distributed there was still much concentration and under the changed conditions, control as distinct from ownership, centered in a relatively few hands. In London, Berlin, Paris, Vienna and New York much power and responsibility rested among a few small groups.

Another change appeared as the result of the corporate form of

organization. The owners of a given property (i.e., the stockholders and bondholders) are not usually the managers, and are concerned primarily with the regular receipt of dividends and interest. They do not often inquire too closely into policies and methods but ordinarily protest with vigor if their income is small or irregular in appearance. Officers and directors are under a greater pressure to make profits than we sometimes realize. Often a choice must be made between adopting questionable policies and methods and facing the relentless indignation of security holders.

IMPORTANCE OF UNINTERRUPTED OPERATION

Attention should also be paid to the importance of uninterrupted operation in modern business. Irregularity means periods of unemployment or part-time work with resultant discontent, unrest and perhaps violence. Fully as important to the employer is the relentless pressure of "overhead expenses." His outlay is of two sorts. The first is for items that fluctuate with the volume of business done. Cost of raw materials and freight charges are illustrations of expenses that are greater when the volume of business is large than when it is small.

On the other hand, some expenditures must continue with little reference to the output of a given year. Interest on bonds, insurance premiums, much of the depreciation on equipment and the salaries and wages of a considerable staff of employes must be kept up even though business is dull. In many plants these "overhead" expenses are larger than the variable ones.

Heavy "overhead" is largely due to the great amount of capital employed and has become increasingly significant in recent years as larger and larger plants are built. Continuous operation must be arranged for. Even temporary cessation means disorganization, a scattering of employes, a continuance of 50 per cent or more of expenses, and perhaps bankruptcy, while resumption after such an experience is extremely difficult. But continuity of operation necessitates a steady and large supply of raw materials, some of which perhaps come from abroad, and control over their sources becomes advantageous. A regular market for the sale of finished products is equally important. The home market can be secured in whole or in part by protective tariffs but foreign markets must be acquired and held in other ways. Greed for exorbitant gains

may draw many on, but relentless pressure to keep the great machine going explains much of the intensity of competition for colonies and for markets.

This is a very fundamental fact in our economic structure which goes far to explain the economic conflict between different countries. Large scale production by modern methods means a heavy capital investment. This involves large overhead expenses and makes any interruption of operations dangerous, the result being an acute rivalry for raw materials and markets. There should be added yet another fact. With the shift of population from country to town and the consequent decline in agriculture (especially noticeable in England) foodstuffs must be imported from the outside and control of the sources of their supply becomes important.

The forms in which this competition appears are familiar. Tariff wars, struggles for concessions, spheres of influence and peaceful penetration are among the most important, to which should be added the rivalries in international financing. The privilege of lending to a foreign country on the basis of securities to be resold to the general public at home is valuable. Moreover, such loans often carry with them the condition that orders for certain specified supplies shall be placed in the country whose bankers underwrite the loans.

OUTCOME OF INTENSE COMPETITION

The effects of the ensuing struggle are of two sorts. One is to bring the rivals to see the folly and the dangers of continuing the competition. Within the United States this result has long been apparent. Years ago our railroads realized that cutthroat competition meant bankruptcy. They abandoned it for pooling and when pools were made illegal other forms of association and of consolidation were devised. In recent years they have competed in service rendered but not in rates. The disasters of competition between such large enterprises has been recognized. In the international field there are many illustrations of the same tendency. Competition is disastrous and international organizations in banking, transportation and manufacturing follow. Coöperation between units formerly competitive prevents the disasters that might otherwise follow.

Consolidations may occur but the outcome is sometimes different, for competitors do not always compose their disputes. Instead of agreeing on some plan for coöperating they may prefer to continue the struggle to their own injury and often to the great loss of the public. This is constantly occurring in many industries, a good illustration being the retail grocery business where failures are numerous. If the field of competition is of international interest each competitor may appeal to his government and to his fellow citizens for their moral or material support. Feeling may develop which will result in open conflict of which illustrations are numerous. Rival claims in South Africa, English and French eagerness to control the Upper Nile, French and German friction in Morocco and Russian and English desire for supremacy in Persia are a sufficient list for the purpose. Dispute over the route of the Bagdad Railway or the control of an important seaport may bring great states to open warfare.

It may be argued that the conditions described are those of a past epoch. This may be true, but there are grounds for doubt. The war has not diminished the importance of large scale production but increased it. To meet the demands of war many plants have been enlarged, machinery has taken the place of labor and output has been standardized. Production in many lines is possible on a larger scale than ever with a capital investment greater than in the past. Pressure to keep an industry going will increase rather than diminish, for even more will be lost if the plant stops.

Still another change has occurred. Government control and operation of industry have grown rapidly to meet the war need and some of this new power will not be readily nor quickly surrendered. Railroad and telegraph and telephone companies may not be returned at once to private control and the influence of governmental bodies over price, quality and market conditions will remain for a time.

A DISCOURAGING OUTLOOK

With these two facts as stated what will be the outcome? Larger aggregations of capital are in existence than ever before. There is governmental organization for controlling and directing this industrial machinery to any desired end and we face the probability that the entire economic life of a country will be adjusted

for a conflict with that of rivals in the world's markets. No longer will there be a struggle of merchants in Berlin against merchants in Paris, manufacturers of the United States against those of England, bankers of Paris against those of London. All of the economic resources of Germany will be coördinated and pitted against those of her competitors who in turn will have similarly organized against Germany and against each other.

In the past Germany has carried this idea farther than her rivals and she will probably continue her old methods. But the example she has set is being imitated elsewhere as is clearly shown in the books and articles that are appearing on all hands.¹ In our own country combinations for export trade have been legalized, banks may coöperate in the establishment of foreign branches, subsidies are being asked and other measures are being taken to coördinate all of our efforts for the capture of foreign markets. In England, the home of individualism and the stronghold of *laissez faire*, is to be found the same tendency.

The picture is a dark one. Whole countries organized against each other possess a power and acquire a momentum that add to the dangers inherent in a commercial conflict. Subsidies may be given, "key" industries recognized and protected, one line of business, e.g., banking abroad, may be conducted at slight gain or even at a loss for the sake of profits received from an export trade encouraged by the banks, in fact all profits might be sacrificed for a time for political or other ends.

If this were merely a vision of the possibilities in a distant future, it would be of academic interest but no more. Instead it is a fact confronting us in the immediate present. If we drift, our solutions may be worked out with little conscious guidance from anyone, but probably not. Instead we may drift into another conflict even more serious than the one just ended. Nationalism was intensified during the war and has even grown during the discussion of the terms of peace.

"PROTECTION" MUST BE DEFINED ANEW

This tendency to unify the economic life of each country introduces modifications of thought and policy in many directions. Protection is no longer a matter of import duties on certain

¹ See, for example, the articles in this volume by Messrs. Colver and Lippincott.

specified commodities. In the words of Grunzel it is "neither more nor less than the sum total of the measures adopted by the national-economy unit for the purpose of advancing its interests in the field of world economy." Control is exercised over the importation and exportation of commodities, over the movement of capital into and out of a country and even the emigration and immigration of peoples is subjected to strict supervision.

Reference was made above to the ways in which the problem has been handled within each country. Competitors may get together thus ending the losses due to reckless underselling or they may continue their rivalry with disastrous results to the public as well as to themselves. If the first plan is followed there develops a twofold danger. Business is conducted primarily for profit, product being merely a means to that end. A combination of competitors may acquire a monopolistic control and utilize it to raise prices. This places on the community a financial burden that may be unduly heavy but would not be so serious if it were not necessarily accompanied by a restriction of output. In order to maintain prices at a higher level production is curtailed and we must content ourselves with (1) a smaller volume of goods which are (2) sold at a higher price.

In order to minimize these difficulties we have imposed numerous restraints upon monopolies. One is to prevent their formation or to dissolve them after they are organized, a procedure which has met with rather indifferent success. The other plan, also far from successful though much better, has been to recognize the monopoly or even to encourage it but to dictate the price and other conditions under which its commodity or service must be furnished to the public. This policy has been applied especially to the group referred to as public utilities.

COMPETITION VERSUS COÖPERATION

Another way of describing the tendency is to say that competition is gradually yielding to coöperation. In our personal relations we still compete but, after all, our coöperation is of far more importance. Even a casual survey of one's relations with his fellows shows how much he is dependent upon them and their activities. He still competes with them or with some of them but in a relatively limited field. The same is increasingly true of

our domestic relations in general. One corporation depends on many others, each industry can operate successfully only if others do the same, one part of our economic life functions to best advantage when the others do likewise. Interests that are common are after all more numerous than interests that are divergent or antagonistic.

Against the dangers that arise we may endeavor to guard by still more complete coöperation, utilizing our governmental organization to assist us in getting satisfactory results. The fact that the results attained are so imperfect does not demonstrate that they are not better than would prevail if there were no such arrangement. Is it too much to hope that this coöperation may be increased within each country and extended more fully in the international field? What is the outlook?

First it may be observed that many competing corporations have already recognized that the accident of their location under different governmental authority is by no means the final consideration. Working agreements, holding companies and other devices for unified effort abound. International combination is in some industries an accomplished fact and will spread rapidly. Probably its extension would be still more rapid and certain were it not for the intensity of our nationalism. The belief in the common interests of the individuals residing within a given geographical area is very persistent and deep seated. All of the advantages that inhere in such a conception need not prevent our recognition of its tendency to retard international consolidations.

Yet if our transportation companies, industrial establishments and banks come together in an attempt to control the world market they may become a universal menace. "Trusts" within a given country may curtail output and raise prices or in other ways prove injurious and such practices may presumably be employed in the broader world field. Against such a contingency the only protection seems to be international coöperation of some kind, presumably to be secured best through a League of Nations.

The second possibility in the international field has already been suggested. Instead of private working agreements or consolidations of companies in different countries, there may be developed a close organization of all industries in each country with governmental coöperation and supervision for the purpose of

vigorous and probably ruthless competition. The driving force of such combinations would be enormous. They would acquire such a momentum and become so reckless of consequences as to make war inevitable. Either international "trusts" or a scramble for trade by competing nations will be dangerous. Neither would be a solution of our difficulties nor furnish us the internationalism that is needed.

In the light of past experience and present tendencies it may be observed that the task of internationalism is complex. The advantages of large scale production, of the corporate form of organization and of the extensive use of machinery rather than human labor must be retained. There must not ensue a scramble for profits that will precipitate another war nor must international trusts be permitted to curtail output or to charge excessive prices. To forecast the forms of organization or of agreement necessary to attain these ends involves more prophetic vision than the writer possesses, but some of the factors that will help or retard the movement may be indicated.

FORCES OPPOSING INTERNATIONALISM

Influences operating against the development of economic internationalism are strong and persistent. One is the fact that business is conducted primarily for profit. Product is of importance to the individual only as it contributes to that end. So general is this that one is apt to overlook its significance. Concern for profit leads each of us to adjust his business in such way as to secure the largest number of dollars for himself. This may be accomplished by means of a large output of wheat, cotton or shoes thus furnishing the community with more commodities. On the other hand, more money may often be made by driving out a competitor with methods that may not add to the volume of goods produced but may even give to the community less product and poorer service than before. Or if control of the market is sufficient it may be profitable to destroy commodities or plan to curtail future production. The smaller volume of output may sell for so much more per unit as to yield a greater return.

This idea is firmly entrenched and permeates most of our thinking on economic questions. Profit, even at the expense of product, is so obviously advantageous to separate enterprises that one

readily assumes that the same policy if pursued by all will result in a general gain. That it does not have such a result does not call for elaboration nor is it necessary to dwell at length on the fact that the exaltation of profit even with a loss of product is not a view peculiar to trust magnates and captains of industry. All of us are influenced by it and struggle more or less vigorously to secure and retain monopolistic advantages. Apparently the view will yield only under pressure from some strong counteracting influence.

Business primarily for profit rather than for product appeals the more strongly because our interests as consumers are so diffused. A small cotton crop means a higher price for cotton than if the crop were large but after all only a small fraction of one's income is spent for cotton and it is pleasant to think of large profits for cotton producers, even though they may have deliberately curtailed output. We hold the same view with reference to all of the other articles we consume, finding it difficult to develop enough interest in any one direction to protest against the loss.

This attitude toward profits affects not only domestic enterprises but international affairs. A large and properly diversified product is by all odds the result to be desired but the longing for profits predisposes us to favor those plans and policies which seem to contribute most immediately and directly to that end. Profits from foreign trade in steel, in meat and in grain are sought and approved with little or no reference to the more important considerations for all concerned, viz., the volume, character and destination of the commodities. The output may be small, the price high, the gains secured by foreigners or by a limited group in one's own country but the magic of the word "profits" quiets all discussion.

A curious result of this viewpoint is found in our thoughtless approval of an excess of merchandise exports, a so-called "favorable" balance of trade. Ordinarily approval is given to such a balance with but little thought of its significance. One reason is presumably the effect of the word "favorable" on one's thinking. It suggests something that should be desired and is to be approved, thereby giving an important illustration of "begging the question." That the expression is merely carried over from a time several hundred years ago when an excess of merchandise exports and an

importation of gold and silver was of real advantage, is usually overlooked. That for some countries, at some times, an import balance of merchandize is the better; that any country which exports its capital is to that extent limiting the amount of possible investment in its domestic industries; or even that an export balance of merchandise for every country is an impossibility, seldom occurs to us. An export balance for the United States at all times is assumed to be the best and any intimation to the contrary or a suggestion that the matter be argued on its merits, is met with discouragement.

Attention may also be called to the belief in national self-sufficiency as an ideal and in the superiority of one's own national customs and institutions over others.² These beliefs lead at once to the advocacy of heavy protective tariffs; to plans for "imperial preference"; to the encouragement of manufacturing goods at home regardless of cost; and to a determination that any and all products of one's own country must be pushed with vigor in other lands. Governments are so impressed with this view that they exert themselves most vigorously to assist.³

INFLUENCES FAVORING INTERNATIONALISM

These influences are by no means the only ones but suggest the observation that much of the task is that of changing our way of viewing many economic matters, of becoming more willing to face facts and analyze problems on their merits. So difficult does this seem and so much of a revolution in our thinking is implied that it is well to point out at once some of the changes that have taken place. Progress is already being made.

First is the fact that the economic interdependence of the countries of the world is today more fully realized than ever before.⁴ The war has shown the wonderful possibilities of coöperation, both military and economic. Much has been accomplished by assigning to each country the work for which it was best suited by location and resources. In the division of duties much devolved upon the

² The article in this volume by Dr. J. R. Smith (p. 86) clearly presents the significance of this observation.

³ Mr. Schmeckebier in this volume outlines this work as it is being done at present by our own government.

⁴ For an interesting analysis of this the reader is referred to the article by Mr. Grosvenor Jones in this volume.

United States because of its location and the scarcity of shipping. Some of the conditions have changed but the significance of the lesson will remain and perhaps also some of the actual organization by which the results were secured during the war.

A second factor is the actual existence of an international organization in many industries. Foreign selling agencies and branch banks abroad are illustrations. Even the financial disorganization prevailing in a country like Mexico can best be remedied by a recognition of the importance to her creditors of her economic development along natural lines.⁵ What is true of Mexico is presumably true of Russia and other countries and signs are not wanting that business leaders in the United States and England particularly are aware of it.

A third factor is the organization of consumers. Producers' organizations have been the rule but in addition to their numerous advantages they have tended to keep attention concentrated on profit. Consumers are more concerned with product and with product at the lowest practicable price. Consumers' leagues and coöperative societies will help us in shifting the emphasis.

As an offset to the enormous growth in the power of centralized government there is to be observed a decentralizing movement. Prior to the war active discussion of this was under way in France. Many of our economic interests are national in significance and in organization and can be dealt with satisfactorily only by a strong central government. Others, however, are more local in importance and cannot be so well handled by a federal or imperial authority. Indications of the reaction are to be found in the demands for more autonomy by Ireland, Egypt and India within the British Empire; in the movement just mentioned for a less centralized organization in France; and in the growing demand for more home rule among the cities of the United States. Attention is being attracted also to the way in which the local authorities in Germany have handled many serious emergencies since the signing of the armistice and much may perhaps be learned also from the operation of the Russian Soviets when their activities can be more accurately and impartially studied.

* For an elaboration of this, see the article p. 180 by Mr. E. D. Trowbridge,

THE INDUSTRIAL UNREST

This survey is already sufficiently long, but reference must be made to the current proletarian movement, to the phenomenon of industrial unrest. It has appeared in different forms and an unbiased opinion of its details is still impossible. Nevertheless, one may already hazard a few observations regarding its significance and its results.

First, it seems clear that as a result of it the workers are to be given a larger share than before in the operation and control of their industries. The Soviets of Russia, Hungary and Germany and industrial councils in England and the United States may differ widely in many regards, but in this they are similar. Presumably this will involve some shift in emphasis from profit to better working conditions or even to product. If workers can be brought to appreciate their position as consumers as well as producers much gain may follow but it is too soon to speak of this with confidence.

Second, one may observe that any extension of the idea of industrial instead of geographical representation in legislative bodies will make for internationalism. So long as legislators are chosen to represent people residing in a given area of land, nationalism is encouraged. In so far as they frankly represent a given industry, such as steel or oil, their interests cannot well be confined within geographical limits, but will extend as far as the industry. Individuals residing in the agricultural districts of East Prussia may be needed to advise or to vote in a Russian duma because of the close relationship of the agricultural life of that region to that of Russia proper. The lumber interests of our great Northwest are not divided by the Canadian boundary line nor the grazing interests by that between the United States and Mexico. Charges have often been made that legislators chosen nominally to represent certain industries have often shown undue concern for foreign connections of those enterprises. If this be true it is an evidence of the international character of our economic life and a legislative body frankly chosen on an industrial basis would be more open and more honest and would be an important factor in the development of economic internationalism. In addition to the more radical proposals for such representation as

it is now being tried in eastern Europe there is to be noted the national gild movement of England which definitely urges a unity of interests among producers which calls for their organization as such, the state retaining the function of safeguarding us as consumers. Even if none of these proposals and experiments succeed they reflect a changed outlook and a new point of view which may have some effect on our future institutions.

Clearly this summary of influences operating for and against economic internationalism is incomplete. To the writer the ones named seem the most important though it may well be that in the long run others will be more significant. Thus newspaper correspondents in France have recently reported that the free traders of that country are elated over the effect of air transportation on protection. Collection of duties becomes almost impossible when goods can be imported by airplane and this may greatly modify or compel the abandonment of protective tariffs and so encourage internationalism.

Apparently internationalism must be built upon nationalism. For the present the influences that produced economic friction in the nineteenth century persist and are even magnified. A rivalry more acute and dangerous than that of the past may be confronting us. Desire or necessity for profit, belief in the efficacy of a "favorable" trade balance and confidence in "national self-sufficiency" combine to aggravate the difficulty. Nevertheless the economic interdependence of the world is a fact that is slowly becoming recognized, there are some decentralizing tendencies and out of today's confusion may come a different outlook and a new conception of welfare. With such changes will come new perplexities but international conflicts may be fewer and international coöperation more common.